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Executive Summary

- Global mobile music revenues will increase to €3.2bn by 2012. Although personalisation services such as mastertones and ringback tones will still retain over half of these revenues, full track and video service revenues will have increased to 46 per cent worldwide from 29 per cent at 2007 year end.
- The largest markets in 2007 for full track and music video services were Japan (€161m) and the USA (€115m), with 35 and 25 per cent shares of the global full track digital music market respectively. The same two markets are forecast by Screen Digest to lead in 2012, although with slightly reduced market shares (Japan: 34 per cent, USA: 21 per cent) as uptake increases in Europe and emerging markets start to come into play.
- Over 82 per cent of mobile operators in the markets covered by Screen Digest offer full track music services. This traditional operator centric mobile music market is being shaken up as network operators start to release control of the music services and more readily allow third party providers to enter the field. This change in tack is already seeing a rise in the number and type of mobile music service offered. Screen Digest expects more services to be introduced in the coming months as browsing and data download charges are further clarified and/or bundled into voice or music subscriptions.
- In leading markets, W Europe, N America and Japan, the number of MP3 handsets sold (244m) almost tripled that of standalone MP3 players (87m) in 2007 and the penetration of these devices is steadily increasing, forecast to outnumber MP3 players approximately 8:1 by 2012. The launch of the iPhone in June 2007 paved the way for these handset manufacturers to offer more competitive music services of their own. Operators took on the iPhone despite its sideloading music store competing with their own OTA services as a result of the handset's consumer appeal. Nokia and Sony Ericsson have since followed suit, launching unlimited subscription services for 'free' bundled into the cost of the handset.
- Bundled music services such as Nokia's Comes With Music and Sony Ericsson's PlayNow Plus are set to encourage full track music and video mobile subscription revenues to increase to €928m by 2012, almost double that of a la carte full track and video revenues (€508m).
- Profits for the music service providers remain questionable due to the high wholesale price of music. Mobile music is likely to end up more of a value add

to device and operator voice tariffs than
a profit making service in its own right.

Introduction

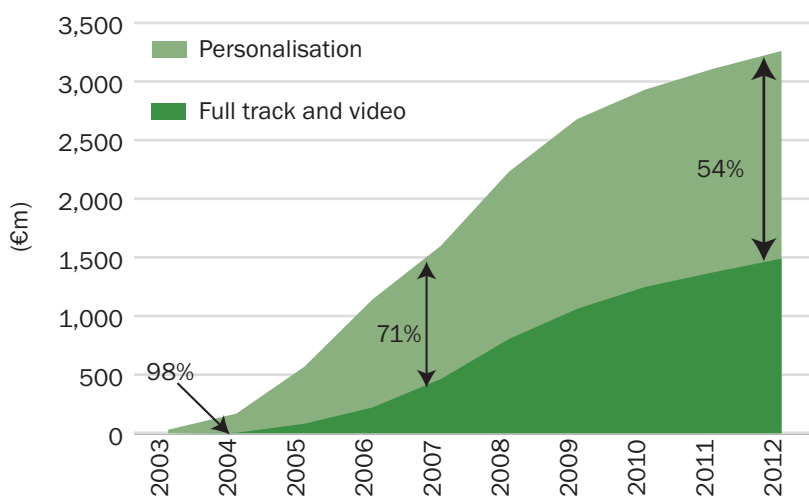
The mobile music market took off with ringtones in 1998 and is still very much dominated by personalisation services today. Despite the growing demand, mobile operators have failed to take full-track services to the mass market partly due to high pricing and costly data download charges. However, the emergence of disruptive business models such as Nokia's Comes With Music (CWM) is set to change this trend and Screen Digest expects personalisation to lose some ground, shrinking from 71 per cent of the market (2007) to 54 per cent by 2012.

Operators have traditionally controlled over the air (OTA) full track music services, something which naturally follows from their existing billing and service relationship

with the consumer. In order to maintain this control, they have discouraged users from moving off portal by charging extra for browsing these sites, creating a de facto 'walled garden'. Screen Digest has observed a major shift in business models for full track services in the past year as the operator walled gardens started to crumble:

- Omnifone began to offer its rental music service bundled with Vodafone UK voice tariffs.
- Nokia launched its CWM in the UK, an unlimited permanent download service bundled into the handset cost.
- Sony Ericsson responded to Nokia with PlayNow Plus, a hybrid rental and bookclub music service run by Omnifone also bundled into the price of the handset.

Global mobile music revenues



Source: Screen Digest

Will operators continue to let the portal divides fall and further release their grip on mobile music services? Is Nokia going to be the first to manage to monetise full track mobile music or is music simply set to become a commodity used to drive handset and voice sales? How does that affect the business of mobile music service providers such as Real, Napster and Omnifone?

This report aims to answer those questions, analysing full track services, past, present and future. Particular attention will be paid to the emerging bundled music models from handset manufacturers, Nokia and Sony Ericsson, and what impact these are likely to have on the market.